CENTRAL BANK OF SAMOA

MONETARY POLICY STATEMENT

FOR THE FINANCIAL YEAR 2004/2005

APIA

September 2004

CONTENTS

1. INTRODUCTION

In line with Government's emphasis on transparency and accountability, Monetary Policy Statements (MPS) serve as the main vehicle to communicate and explain to the public the main monetary policy objectives and targets that would be pursued by the Central Bank in the year ahead. As well, these statements are issued in accordance with the Central Bank's Corporate Plan for 2003–2005 and Government's Strategy For The Development of Samoa for 2003-04. The main objective of the Central Bank's monetary policy is to promote sustainable real economic growth by maintaining price stability and international reserves viability. This is the fourth Monetary Policy Statement issued by the Central Bank of Samoa.

The Central Bank has defined price stability as an inflation rate consistent with those of Samoa's main trading partners. The annual rates of inflation for Samoa's main trading partners currently average around 3.0 percent and this is the target that the Central Bank normally aims to achieve and maintain each year. However, there are times when changes to prices are beyond the realms of monetary policy, indeed beyond the control of the Central Bank. This was the case in 2003/04 where the sharp and continually increasing international price of crude oil combined with the adverse effects of cyclone Heta in January 2004 to drive up the prices of petroleum products and food in the period under reference.

Given that Samoa is a very small open economy with total merchandise trade alone representing around 60 percent of nominal GDP, it is therefore very important that Samoa maintains a sufficient level of international reserves to withstand large unforeseeable economic shocks. The Central Bank considers a level of net international reserves, equivalent to no less than 4.0 months of imports of goods, as adequate for maintaining the country's long-term international viability.

2. EXECUTIVE SUMMARY

In fiscal year 2003/04, monetary policy set out to accommodate fiscal policy in generating real economic growth especially following the onslaught of cyclone Heta in January 2004. A comfortable level of international reserves and the realization that the steep rise in prices (following cyclone Heta) was unavoidable supported this policy stance. In the event, the level of banks' excess reserves increased. This resulted in lowering the level of official interest rates and the commercial banks' interest rates. In addition to the reduction in interest rates, further easing of foreign exchange controls on capital transactions saw credit to the private sector rise in 2003/04.

Overall, the macro-economic results for 2003/04 turned out reasonably positive, despite the adverse impact of cyclone Heta in the second half of the financial year and the continued strong rise in international petroleum prices. The latest estimates put real economic growth for the fiscal year 2003/04 at 1.7 percent and international reserves at over 4 months imports of goods. On the other hand, the annual rate of inflation rose, reaching 7.9 percent at the end of June 2004, consequent of the shortages in local food supplies and increased petroleum prices.

For the financial year 2004/05, fiscal policy is again focused on boosting real economic growth. Growth is expected to be led by the booming construction sector, large inflows of foreign aid, increased private remittances and a further expansion in the tourism sector. With the expected recovery in the world economy, the balance of payments is forecast to generate an overall surplus despite the anticipated sharp rise in imports of goods and services. Headline inflation, on the other hand, will continue to feel the aftermath of cyclone Heta, rising to about 17 percent in December 2004 before eventually declining to 8 percent at the end of the financial year. However, the underlying rate of inflation is expected to register at around 2 or 3 percent on an end-year on end-year basis by June 2005.

Overall, the macro-economic outlook for the fiscal year to end June 2005 appears favourable. Therefore, with growth in 2003/04 being low, monetary policy is again focused on supporting fiscal policy in boosting real economic growth in 2004/05. In pursuing this monetary policy stance, interest rates are expected to remain or fall further from their currently low levels. This should see the annual average level of bank credit to the private sector increase by 13 percent and money supply (M2) to rise 9 percent. In the event, the economy is expected to grow by about 3 percent (in real terms) in the 2004/05 financial year.

3. DEVELOPMENTS IN 2003/04

3.1 World Economy

Global economic growth took on a firmer footing as actual real growth rates overshot forecast figures. The world economy grew in real terms by 4.3 percent in the fiscal year 2003/2004 compared to the forecast 3.7 percent. Inflation, on the other hand, grew at the expected rate of 1.8 percent. (See Table 1.)

Table 1
Selected World Economic Indicators

Fiscal year to end June	2001/02	2002/03	2003/04	2004/05 Forecast	
		(Percent)			
Real growth rate	3.5	3.1	4.3	4.5	
Inflation rate	1.9	1.7	1.8	1.7	
Official international interest rates,	(End of period, percent p.a.)				
US Federal Reserve	1.75	1.00	1.25	1.50	(1)
Reserve Bank of Australia	4.75	4.75	5.25	5.25	(2)
Reserve Bank of New Zealand	5.75	5.25	5.75	6.25	(3)
Bank of Japan	0.25	0.15	0.15	0.15	(1)
Bank of England	4.00	3.75	4.50	5.00	(4)
European Central Bank	3.25	2.00	2.00	2.00	(4)
Reserve Bank of Fiji Notes, 91 days	1.25	1.25	1.75	1.75	(5)

Source: IMF and reserve banks' publications and information releases.
(1) Interest rate as at 10th August 2004
(2) Interest rate as at 4th August 2004
(3) Interest rate as at 9th September 2004
(4) Interest rate as at 5th August 2004
(5) Interest rate as at 3rd September 2004

The US economy sustained its recovery into 2004 with most economic indices pointing to positive developments. The employment market sustained a moderate recovery as job numbers improved. The manufacturing sector settled on a dynamic growth path and increasingly contributed to growth in private business investment. Personal income tax rebates and increasing real wage growth supported a boost in retail sales figures and personal spending. A steady inflow of foreign investment into the US and soaring exports slightly improved the current account balance. The current account deficit stood at 4.9 percent of GDP in the first quarter 2004, down from 5¼ percent in the first quarter 2003.

The Australian economy remained sturdy during the fiscal year 2003/04 as the expanding international environment became increasingly broad-based. Consumer confidence was strong as consumer spending received significant boosts from tax cuts and additional benefit payments. Domestic demand remained the primary source of growth when manufacturing and resource exports were relatively flat. The previously overheated housing market also eased into 2004. Overall, the Australian economy maintained a good growth pace with relatively low inflation and a downward trending unemployment rate.

The New Zealand economy displayed strong growth early into 2004 following a slight easing in 2003. Economic activity increased in the 2004 March quarter to an annual growth rate of 5 percent. Retail sales and business investment was strong, while export commodity prices surged. In the course of robust activity, domestic inflation increased to 5 percent but the appreciating exchange rate led to price falls for many imports. Subsequently, high domestic inflation and low imported inflation cancel each other, taking the inflation rate to 2.4 percent. The unemployment rate stood at 4.0 percent as labor market prospects improved.

The Japanese economy showed encouraging signs of growth as exports, business investments and industrial production increased in line with the booming global economy. Real GDP grew by 1.4 percent in the first quarter of 2004 indicating strength in domestic demand as consumer confidence took on optimistic levels and sustained robust movements in private consumption. The employment situation improved with the unemployment rate around 4.8 to 4.9 percent.

The Euro area economy grew moderately as the industrial sectors recovered on the back of global economic growth. First quarter GDP improved around 0.6 percent as retail sales surged and consumer spending continued to rise in France and other growing Euro region economies. Consumer prices slowly edged higher from 2 percent in April to 2.4 percent in July 2004. The employment market maintained a weak stance with the unemployment rate registering 9 percent in the middle of 2004.

Macroeconomic policy around the world was less expansionary as the global economy accelerated and reserve banks opted for slightly tighter monetary policy to stem inflationary pressures. The US Federal Reserve Board increased the official interest rate to 1.25 percent from a four decade low of 1.00 percent as growth in the US economy accelerated. In Europe, the European Central Bank held the interest rate at 2.00 percent, as an increase was unwarranted due to slow growth and mild inflation. Meanwhile, the Bank of England hiked their interest rate to 4.50 percent from 3.75 percent. Across the Pacific, the Reserve Bank of New Zealand (RBNZ) increased the overnight cash rate in incremental steps reaching 6.00 percent in September 2004 from 5.00 percent in January 2004 while the Reserve Bank of Australia (RBA), on the other hand, maintained it's cash rate at 5.25 percent.

On exchange rates, the ***US dollar's*** strength waned as it struggled to attract adequate funds from foreign direct investment and foreign demand for US assets to finance it's deficits. Weak economic indicators coupled with low interest rate in the US also added to the US dollar's under-performance against the commodity currencies. An overrated assessment of the US economy further weakened the dollar when economic reports produced conflicting figures and undermined the strength of the interest rate hike.

The Australian ***(AUD)*** and New Zealand ***(NZD)*** dollars traded exceptionally well on account of US dollar weakness and upbeat domestic data. The AUD traded at new highs in early March as it sustained trade around US$0.76 cents against the weaker US dollar, while the NZD maintained strong trade levels around the US$0.66 cents level. Both currencies sustained attractive trade levels over June despite being weaker since January.

The ***Yen*** earlier in the year strengthened against the US dollar to as high as Yen104, but this triggered the Bank of Japan to sell a record 15.2 trillion Yen to stem advances against the dollar. Since then, weak domestic data and concerns over the pace of economic growth amid record high oil prices, coupled with the slowly recovering US dollar have kept the yen at weak levels.

3.2 Domestic Economy

Monetary policy and conditions in 2003/04

At the beginning of 2003/04, monetary policy was aimed at supporting fiscal policy in generating real growth in the economy, with inflation expected to be well beaten from a very high level in the previous financial year and reserves staying above the minimum comfortable level of four months import coverage.

The Government Budget for 2003/04 projected an expansionary fiscal policy stance with an overall budget deficit of $14.1 million in 2003/04. The overall deficit reflected a $23.3 million or 7.5 percent expansion in total expenditures, partially offset by a $14.9 million or 4.9 percent increase in domestic revenues and grants from abroad. On the expenditure side, current expenditures rose $5.8 million or 3 percent, development outlays increased $6.6 million or 8 percent and further investment in the national flag carrier Polynesian Airlines saw the net contributions to statutory bodies and government corporations rise $10.9 million or 55 percent. Government's improved revenue performance was projected to come from a $22.0 million or 10 percent growth in tax and non-tax revenues, which offset a $7.2 million or 10 percent reduction in grants from abroad. (See Table 2.)

Table 2
Financial Operations of Government
(Amounts in Tala Million)

During the period	2001/02	2002/03	2003/04 Budget	2004/05 Budget
Total Revenue and Grants	290.8	303.5	318.4	509.4
Total Revenue	198.7	229.4	251.4	268.0
Tax	182.7	206.5	224.1	239.5
Non-tax	16.0	22.8	27.3	28.5
External Grants	92.1	74.2	67.0	241.4
Total Expenditure	308.6	309.1	332.4	517.9
Current Expenditure	183.3	202.2	208.0	232.2
Development expenditure	104.2	86.9	93.5	259.5
Net Lending (1)	21.1	20.0	30.9	26.2
Overall surplus / Deficit (-)	-17.8	-5.5	-14.1	-8.5
Financing	17.8	5.5	14.1	8.5
External Financing	11.8	4.7	13.1	5.1
Disbursements	23.9	16.6	26.5	18.1
Amortisation	-12.1	-11.9	-13.4	13.0
Domestic Financing	6.0	0.8	1.0	3.5
Monetary system	-3.5	-6.2	1.0	0.0
Other	9.5	7.0	0.0	3.5

Source: Ministry of Finance

Actual figures on Government's financial operations during fiscal year 2003/04 are not yet available. However, there was an actual overall deficit of $17.6 million in Government's financial position vis-à-vis the monetary system in the fiscal year under review compared with a $6.2 million surplus the year before.

With the expected favorable macro-economic outlook, an accommodative monetary policy stance was pursued for 2003/04. This was achieved by maintaining, on average, a higher level of commercial banks excess reserves than in the previous year. In 2003/04, therefore, the monthly average level of excess reserves for the commercial banks was increased 75 percent to $21.5 million, fluctuating slightly from month to month around that level. This saw the yields on the main policy instrument, Central Bank securities, falling during the year. In particular, the 91-days benchmark yield fell 52 points from 5.46 percent in 2002/03 to 4.94 percent 2003/04. The yield on the 28-days paper went down 62 points to 3.16 percent and that on the shortest paper, the 14-days, declined 60 points to 2.2 percent. (See Table 3.)

Table 3
Selected Domestic Economic Indicators

Fiscal year to end June	2001/02	2002/03	2003/04	2004/05 Forecast	
	(Percentage change over the previous year)				
Real sector					
Nominal GDP	7.3	6.1	5.6	7.0	
Real GDP	3.2	2.9	1.7	3.0	
Prices					
Headline Consumer Price Index (annual average)	7.4	4.3	7.9	7.9	
Underlying Consumer Price Index (year-on-year)				2.1	
Implicit GDP Deflator (annual average)	4.0	3.0	3.1	4.8	
Monetary aggregates					
Net foreign assets (annual average)	-2.4	0.2	7.1	2.2	
Government's net monetary position (end of period)	5.2	6.7	-17.8	-5.4	
Bank credit to private sector					
Annual average	14.9	10.7	12.8	12.9	
End period	9.9	11.4	17.1	8.6	
Money Supply, M2					
Annual average	7.6	8.3	11.5	8.6	
End period	3.6	6.6	12.7	7.4	
Exchange rate					
Nominal Exchange Rate	-5.79	2.21	1.00	na	
Real Exchange Rate	10.18	-1.96	12.80	na	
International reserves	(annual average)				
Net foreign assets (Tala million)	174.4	174.7	187.2	191.3	
Net foreign assets (Months of merchandise imports)	4.5	4.9	5.3	4.4	
Weighted average interest rates	(End of period, percent p.a.)				
CBS 14 days Securities (1)	3.05	2.29	2.22	2.22	(3)
CBS 28 days Securities	4.00	3.15	3.21	3.20	(3)
CBS 56 days Securities	4.75	3.62	4.30	4.23	(3)
CBS 91 days Securities	5.50	5.15	4.90	4.92	(4)
CBS 182 days Securities	6.90	6.69	- (2)	-	
CBS 365 days Securities	7.06	6.90	- (2)	-	
Commercial bank deposits	4.4	4.5	4.4	4.3	(5)
Commercial bank credit	11.6	11.3	11.0	11.0	(5)
Commercial bank interest rate spread	7.2	6.8	6.6	6.7	(5)

Source: Central Bank of Samoa
(1) These securities were first issued on 22 February 2002
(2) There were no outstanding CBS 182-days and 365-days securities at end June 2004
(3) Interest rate as at 3 September 2004
(4) Interest rate as at end August 2004
(5) Interest rate as at end July 2004

In line with the downward trend in official interest rates, the weighted average deposits and lending interest rates of the commercial banks also fell. The weighted average interest rate on deposits fell 2 points to 4.48 percent while that on lending went down 3 points to 11.29 percent.

Early in the second half of the financial year, however, cyclone Heta struck Samoa causing significant damage to agricultural production, infrastructure, communication facilities, homes and some large buildings. Consequently, inflation accelerated sharply due to the shortages in local food supplies. This created a dilemma whereby monetary policy would need to be tightened to stem inflation. However, it was felt that a policy tightening was not appropriate since efforts needed to be focused more on rehabilitation and reconstruction of damages caused by the cyclone. In the event, monetary policy (as well as fiscal policy) remained eased in the second half of the fiscal year.

In July 2003, the national carrier Polynesian Airlines borrowed some $10 million from the commercial banks, backed by Government Guarantee, to meet its contractual obligations for the early return of one of its two large aircrafts. With the approval of the 2003/04 Government Budget, this loan was fully repaid by November 2003, easing pressure on the commercial banks liquidity position.

With international reserves at a comfortable level, the foreign exchange regulations governing lending to overseas residents was relaxed in May 2004, to allow the commercial banks to lend to the overseas branches of local companies. These loans totaled $19.6 million and were for terms ranging from six (6) months to five (5) years. This saw the assets composition of the commercial banks changing dramatically with net foreign assets declining to negative levels while domestic credit to the private sector expanded substantially starting in May 2004.

The reduction in lending rates, the borrowing by Polynesian Airlines and further relaxation of foreign exchange regulations saw total commercial bank credit to the private sector and public enterprises combined expand 11 percent to $369.5 million in 2003/04 on an end-year on end-year basis. This, together with an overall net inflow of liquidity from abroad, saw money supply (M2) grow 13 percent in 2003/04 on an end-year on end-year basis. (See Table 4.)

Table 4
Monetary Survey
(Amounts in Tala million)

End of Period	2001/02	2002/03	2003/04	2004/05 Forecast
A. Determinants of Money Supply				
Net Foreign Assets	182.2	165.5	172.1	185.1
Net Domestic Assets	137.0	175.0	211.5	227.1
Government's Net Position	-93.0	-99.2	-81.6	-77.2
Bank credit to private sector	274.7	306.1	358.5	389.2
Bank credit to public institutions	15.2	30.2	13.4	13.0
Others, net	-59.9	-62.1	-78.9	-98.0
B. Money Supply (M2)	319.3	340.4	383.6	412.2
Narrow Money	92.3	93.8	112.6	120.4
Currency Outside banks	26.1	26.2	28.4	32.7
Demand Deposits	66.2	67.6	84.2	87.7
Quasi-money	227.0	246.6	271.0	291.8
Savings deposits	45.5	45.5	49.4	55.9
Time deposits	171.4	184.8	209.4	223.3
Foreign Currency Deposits of Residents	10.1	16.3	12.2	12.6

Source: Central Bank of Samoa

On exchange rate policy, the Central Bank remained focused on ensuring that exports remained competitive whilst imported inflation was minimized. On 1 April 2004, a new exchange rate basket came into effect, with the five (5) currencies inside the basket allocated with new weights. The basket currently comprises the currencies of NZ, US, Australia, Euro and Fiji. In the fiscal year 2003/04, the Tala appreciated by 1.17 per cent in nominal terms against the currencies of the countries represented in the basket and appreciated in real terms by 1.86 per cent. This real appreciation of the Tala was due mainly to Samoa's higher rate of inflation, particularly following Cyclone Heta in January 2004, compared with her major trading partners.

Macro-economic performance in 2003/04

Despite the onslaught of Cyclone Heta in January 2004, there was an overall positive outturn for the economy in fiscal year 2003/04.

In the public sector, the larger than expected overall fiscal deficit (as mentioned earlier) reflected the increased expenditures for rehabilitation and reconstruction of infrastructure, buildings and communication facilities as well as a reduction in revenue collections following the onslaught of cyclone Heta in January 2004. The excess, however, was manageable and was well within Government's financial capability.

On the external sector, the balance of payments recorded an overall surplus of $6.7 million in 2003/04 in contrast to an overall deficit of $16.7 million in 2002/03. The surplus was mainly due to a large reduction in the current account deficit following strong growths in private remittances and tourism earnings. (See Table 5.)

Table 5
Balance of Payments
(Amounts in Tala million)

During the period	2001/02	2002/03	2003/04	2004/05 Forecast
A. Current Account Balance	-82.3	-43.14	-24.7	-157.1
Merchandise Trade Balance	-415.4	-382.3	-384.5	-479.0
Exports	49.7	41.3	40.8	41.0
Imports	-465.0	-423.7	-425.3	-520.0
Services & income, net	157.5	154.8	153.7	113.3
Travel, net	137.6	144.6	160.8	186.8
Investment income, net	-1.2	-11.5	-1.4	0.3
Other services, net	21.1	21.63	-9.7	-72.9
Private remittances, net (1)	175.5	184.4	206.1	208.7
B. Capital Account Balance	84.6	26.41	31.4	170.1
Official grants, net	77.0	74.2	67.0	158.3
Official Loans, net	11.6	4.7	13.2	5.2
Government guaranteed loans, net	-8.9	-7.3	-12.4	-7.5
Private capital, net (2)	4.9	-45.15	-36.4	14.0
C. Overall Balance	2.3	-16.7	6.7	13.0

Source: Central Bank of Samoa
(1) Unrequited transfers.
(2) Includes errors and omissions.

The merchandise trade deficit, on the other hand, widened slightly by 1 percent as a result of a 0.4 percent ($1.6 million) increase in imports and a 1 percent ($51 thousand) drop in export earnings. The small increase in total imports was the result of an 8 percent ($4.5 million) jump in petroleum imports, partially offset by a drop in Government imports (down $5.8 million) and non-petroleum private sector imports (down $2.9 million). Total **export earnings** in 2003/2004 (at $40.8 million) were 1 percent or $0.5 million lower than the level in 2002/2003 (at $41.3 million) due to shortfalls in supplies. The largest fall in earnings was for fresh fish exports. Cyclone Heta caused widespread damage to root and tree crops around the country disrupting the production and exports of coconut oil, coconut cream, banana and vegetables. The desiccated coconut factory at Vaitele was closed during much of the year as effort was directed to building a new factory. These falls were offset by significant increases in earnings from garment, nonu juice and taro as well as improvements in nonu fruit and beer export revenues.

The export value of coconut oil fell 67 percent in 2003/2004, with a 7 percent increase in export price insufficient to offset a 67 percent fall in export volume. Likewise, there was a 68 percent reduction in copra meal exports. Total revenues from fish fell 41 percent to $13.0 million in 2003/2004. This was a consequent of a 38 percent fall in fish export volume and a 4 percent decrease in its export price.

Earnings from coconut cream exports fell 8 percent to $2.9 million in 2003/2004 as a result of a 20 percent fall in its export volume, which outweighed a 15 percent rebound in its export price. The European ban on kava imports remained but there was a 39 percent improvement in the value of kava exports to $25 thousand, with exports confined to Pacific markets. The increase reflected a 50 percent increase in volume whereas the average export price fell 7 percent.

Total earnings from taro in 2003/2004, at $1.8 million, were 50 percent (or $0.6 million) higher than the level in 2002/2003. This substantial increase in taro revenues was due to a 23 percent expansion in its export volume (to meet the surge in demand in American Samoa following the destruction of staple food supplies in that country by cyclone Heta in the second half of the year) and a 22 percent rise in its export price.

Strong overseas demand saw the price of nonu juice rising 9 percent in 2003/04. In addition, the volume of exports more than tripled, boosting total earnings by more than 300 percent to $3.7 million. Nonu fruit exports also rose strongly, going up 75 percent to $0.9 million. Large shipments of garments to Europe saw total export revenues from garments increasing almost threefold to $11.7 million in 2003/2004.

Beer exports continued to grow with earnings in 2003/2004 rising 6 percent to $4.2 million. On the other hand, desiccated coconut was discontinued midway through the financial year as it suffered quality control problems in shipments to NZ. As a result, export earnings from this new product fell 79 percent to $0.3 million in 2003/2004.

All in all, total export earnings in 2003/2004 edged down 1 percent to $40.8 million in 2003/2004.

There was no significant change in the **direction of expo**rts in 2003/04. The **source of imports**, on the other hand, continued to change in 2003/04 with estimates showing that the volume of imports from NZ and Australia fell further in 2003/04, largely reflecting the appreciation in the value of the Kiwi and Aussie dollars. The depreciation in the Greenback and the sourcing of petroleum supplies from Singapore saw the volume of imports from the US and Asia expanding in 2003/04.

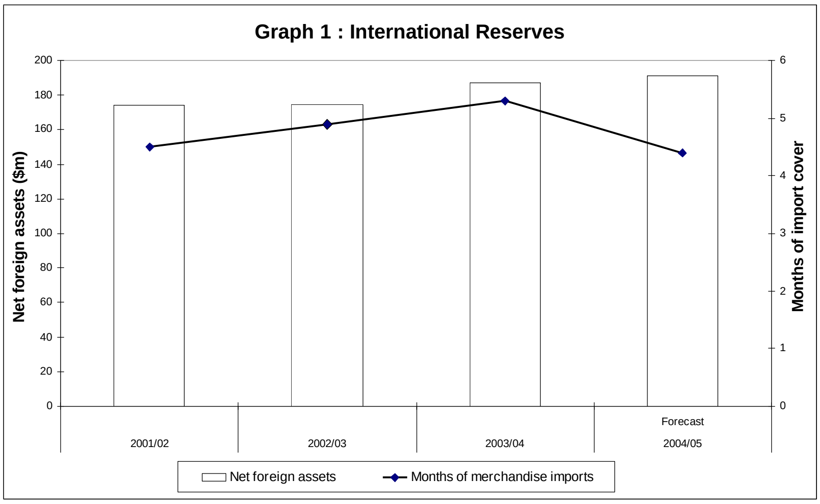
In contrast to the slide in export revenues, earnings from **tourism** rose 16 percent (up $24.2 million) to $178.8 million in 2003/04 compared with 2002/03 as a result of a 26 percent increase in tourist arrivals. The year 2003/04 marked another promising time for tourism, with Samoa playing host to several regional meetings. Visitors from American Samoa grew 19 percent and those from New Zealand and Australia went up 24 percent and 26 percent respectively. Spending by residents traveling abroad, on the other hand, rose 27 percent to $12.5 million.

As global economic conditions began to recover, there was a 12 percent or $21.8 million increase in private transfers in 2003/04. Substantial gains were recorded in remittances from the USA (up 16 percent), NZ (up 37 percent), Australia (up 19 percent) and American Samoa (up 31 percent).

Investment income recorded a net inflow of $0.57 million in 2003/04 compared with a net outflow of $11.5 million in 2002/03 due mainly to lower dividend repatriations during the year. In the services account, there was a net outflow of $10.6 million in 2003/04 compared to a net inflow of $21.6 million in 2002/03 due to an $18.8 million or 24 percent decrease in **other services credit a**nd a substantial increase of $13.4 million in **other services debit**. Inflows from Yazaki export processing recorded an increase of 11 percent to $26.0 million, assisted by the strong Australian dollar as Australia continues to be the dominant market for the company's products.

Government transfers recorded a 10 percent drop in 2003/04 mainly due to lower inflows of project grants (down to $65.8 million from $73.7 million in the previous year) while Government loans registered net disbursements of $13.1 million compared to net disbursements of $4.7 million in 2002/03.

The easing of foreign exchange regulations on the capital account saw the commercial banks lending to overseas companies in 2003/04. Consequently, there were large outflows of private capital funds, significantly reducing the size of the overall balance of payments surplus. Nevertheless, with the marginal growth in imports, the overall surplus in the balance of payments saw the level of international foreign reserves rise to the equivalent of 5.3 months imports of goods in 2003/04 from 4.9 months in 2002/03. (See Graph 1.)



Actual national accounts figures and Central Bank estimates showed that the economy grew 1.7 percent in fiscal year 2003/04. The slow growth reflected a 4 percent decline in agricultural output particularly in the second half of the financial year due to the devastating impact of cyclone Heta on plantations around the country. The overall level of supplies of agricultural produce to the Fugalei Market declined 12 percent pushing up their prices to record levels. The "Fishing" industry continued to decline with real output down by 11 percent. The output of the "Food and beverages manufacturing" sector was the same as in the previous year while the output for "Other Manufacturing" dropped 3 percent. The real output of the "Commerce" sector fell 2 percent after growing strongly in the previous financial year. (See Table 6.)

On the positive side, the "Construction" industry recorded a real growth of 10 percent. Activity in this sector was boosted by major projects such as the new SamoaTel building, Aggie Grey's Faleolo Resort, new school buildings, roads and bridges and the repair and reconstruction of infrastructure that was damaged by cyclone Heta. Construction activity was so strong that the value of imports of construction materials went up $10 million to $59.3 million in 2003/04.

Table 6
Real Gross Domestic Product by Industry
(At 2002 prices. Amounts in Tala million)

During the period	2001/02	2002/03	2003/04	2004/05 Forecast
Agrculture	64.7	64.9	62.3	62.0
Fishing	70.0	65.4	58.2	59.0
Food & Beverages manufacturing	28.2	29.4	29.3	30.2
Other manufacturing	109.0	114.0	110.0	112.2
Construction	54.6	52.8	57.8	63.0
Electricity and water	40.2	42.7	44.6	46.2
Commerce	168.3	180.5	176.9	182.5
Hotels, restaurants	21.6	21.6	24.0	25.0
Transport, Communication	106.2	106.6	115.4	118.8
Public administration	69.2	72.9	75.5	78.5
Finance and business service	76.7	82.7	91.8	94.6
Less: Enterprise share of FISIM (1)	-11.9	-12.7	-13.6	-14.2
Ownership of dwellings	32.9	33.5	34.2	34.9
Personal and other serivce	50.0	50.6	53.3	54.4
Total	879.5	904.8	919.8	947.1
Annual percent change	3.2	2.9	1.7	3.0
Implicit GDP deflator	97.9	100.8	103.9	108.9
Annual percent change	4.0	3.0	3.1	4.8

Source: Ministry of Finance
(1) FISIM : Financial Intermediary Services Imputed

As a result of the extensive repairs to electricity and water supply lines following cyclone Heta, the output of "Electricity and water" went up 5 percent. With the sharp increase in tourist arrivals, the output of the "Hotels and Restaurants" sector grew 11 percent. Likewise, the output of the "Transport and Communication" sector increased 8 percent, boosted by construction projects such as the seawalls for coastal villages and the expansion of telecommunications services throughout the country. The "Finance and Business Services" industry recorded an increase of 11 percent, its output reflecting the continued growth and expansion of the finance industry.

On prices, the annual inflation rate trend was favorable in the first half of the 2003/04 before climbing steeply in the latter half as shocks to the supply side of the Samoan economy dictated the movement of prices during that period. Local food prices, which stabilized in the first half after rising strongly in fiscal year 2002/03, skyrocketed in the latter half of the financial under review following the devastation of agricultural production by Cyclone Heta. Supplies of taro and taamu diminished while those of taro palagi, banana and breadfruit virtually disappeared a couple of months after the Cyclone resulting in their prices surging to record levels. Also impacting strongly on the movement of overall prices was the upward spiraling of international oil prices, which in turn passed through to adversely jack up local transportation costs. Consequently, the annual rate of inflation, which decelerated consistently in the first half down to 0.1 percent at end December 2003, escalated sharply in the second half reaching 7.9 percent at end June 2004. (See Table 7.)

Table 7
Consumer Price Index
(March 2004 = 100)

Fiscal year to end June	2001/02	2002/03	2003/04	2004/05 Forecast
	A. Headline Inflation (12 months average percent change)			
Description				
All Groups	7.4	4.3	7.9	7.9
Food	11.0	4.3	12.9	10.7
Clothing and Footwear	-1.5	-1.5	-3.0	-0.9
Housing and Household Operations	1.9	1.9	-0.1	3.9
Transport and Communication	4.6	4.5	1.3	4.1
Alcohol and Tobacco	2.7	14.1	2.7	0.0
Miscellaneous	1.1	2.8	1.2	1.0
Import Component	1.1	2.9	2.1	6.0
Local Component	10.5	7.9	13.0	7.9
	B. Underlying Inflation (1) (Year end on year end percent change)			
Description				
All Groups				2.1
Food				2.3
Clothing and Footwear				1.8
Housing and Household Operations				2.5
Transport and Communication				0.9
Miscellaneous				0.4
Import Component				2.7
Local Component				0.8

Source: Statistical Services Division, Ministry of Finance
(1) The historical series for this new index started from August 2003.

4. THE WORLD ECONOMY IN 2004/2005

The latest IMF World Economic Outlook (WEO) indicate a promising recovery for the largest economy in the world – the US economy. This is expected to be the catalyst for growth in other regions of the world. Australia and New Zealand economies are also expected to perform well in 2004/05. The WEO therefore forecast world growth at 3.3 percent and world inflation at 1.4 percent. The main threat at the moment is the continuing rise in crude oil prices, which are being driven up by the recovering world economy, the war in Iraq and terrorism worldwide. In the US, crude oil prices rose to as high as the $50 per barrel mark, as demand from the recovering US economy grew.

The global recovery as anticipated in the previous monetary policy statements for the second half of 2003 continued well into 2004. Factors that have supported this extension of growth include a sharp rise in global trade, the buoyancy of financial markets, and most importantly the rebounding US economy- the key driver of world economic activity. Also aiding the global recovery was the accommodative macroeconomic policy stance by the various central banks in the previous year. This policy stance has now been reversed and central banks have begun to move towards a tightening bias - indicative of growing economies, which in turn mirror a growing world economy. Despite this, considerable concerns that could cripple any further prospects of growth remain, such as geopolitical risks - including terrorist attacks, the pressure on oil prices and current account imbalances between major economic regions.

The ***US economy*** is forecast to deliver the strongest growth of the industrial countries, expected at 4.6 percent and an inflation rate of 2.3 percent in 2004/05. This robust pace in the US recovery is mostly attributed to the monetary and fiscal stimulus in place the previous year, but whose effect is fading over 2004. Monetary policy has started to come off its 40-year low (due to the elimination of deflation worries and a welcome to inflation prospects), yet still accommodative at 1.50 percent and still supportive of investment prospects. The US dollar has also acquired some luster since the previous year adding to the attractiveness of US dollar-denominated assets. While the employment situation remains sluggish, there are, however, some positive indications that it is moving in the desired direction. A prevailing concern that does not seem to abate quickly enough is the US current account deficit, which has reached 5.1 percent of GDP on an annualized basis. This deficit is expected to widen further before falling to a sustainable level in the second half of 2005.

The IMF forecasts the ***Australian economy*** to grow 3.5 percent with an inflation rate of 2.6 percent in 2004/05. Monetary policy is expected to remain mildly accommodative with some sign of a rate hike to eventuate towards the end of 2004. The overall picture for the Australian economy looks confidently positive. This in part, is due to fiscal stimulus to the economy in the form of tax cuts and family payments to be handed out under the 2004/2005 budget. The export sector is also expected to contribute significantly to the economy thanks to a surging global economy. Businesses having revised up their investment plans for the year ahead, high consumer confidence, and increasing signs of a cool down in housing demand (which has been a concern from the previous year) are also indicative of this encouraging outlook.

The ***New Zealand economy*** is running brilliantly with the domestic situation continuing to underpin economic activity. Its monetary policy tops those of the Western world and is likely to go even higher before the year's end. On the exchange rate, the New Zealand dollar has eased off from its high levels evident in February 2004 and is expected to continue towards the end of the year, giving the Reserve Bank of New Zealand some comfort during this time of its tightening bias. While its strong economic run seems to be an achievement, it is however, taking a toll on resources leaving the New Zealand economy stretched, which consequently translates into inflationary pressure. Inflation is expected to jump out of its 1-3 percent band in 2005, due to rising oil prices, higher commodity prices, a labour shortage, and a hot housing market. In the event, real growth for 2004 is forecast at 4.5 percent.

The ***Japanese economy*** is expected to better its performance in 2003/2004 by about 0.7 percent to 3.4 percent in 2004/2005, despite the deflation cloud still looming over the economy. The key drivers for this upbeat assessment of the economy are exports, particularly to Asia and a stronger domestic economy. Other reinforcements to this view are, the rebound in private investment, rising corporate profitability and a recovery in equity markets. While these pro-growth factors are a plus for the Japanese economy, doubts persist over whether Japan's recovery is sustainable as the three major concerns from the corporate sector, the banking system and deflation have yet to be fully dealt with. In addition to this, a sharp appreciation in the Yen could prove to be a key short-term risk.

Of the world's three key economic engines, the ***Euro economy*** lags behind that of the US and Japan with a growth rate expected at 1.7 percent for 2004 to be matched also by a 1.7 percent inflation rate for the same period. Strong external demand despite the stronger euro, rising profitability, high equity prices in support of domestic demand, low corporate bond spreads and solid household balance sheets are expected to foster this subdued pace in growth. The Euro-area interest rate is already one of the most accommodative in industrial countries and is expected to remain on hold for the coming months. Despite the promising signs from the various areas of the economy, much continues to rely on external demand - the traditional driver of European recoveries.

The global recovery is expected to continue for the remainder of 2004, but unlike the previous fiscal period, at a rapid pace, reflecting the impressive growth rates of the major economies. The growth rate for the world economy is expected at 4.6 percent in 2004 before the tightening of monetary policy around the world sets in, slowing down economic growth to 4.4 percent for 2005. With regard to the world's three key economic engines, higher interest rates are not a prospect in either the Euro area or Japan in the short-term, given the weakness of economic activity in the former and ongoing deflation in the latter. In the case of the US, its monetary policy remains "measured" with the timing of future rate increases considerably uncertain.

5. THE DOMESTIC ECONOMY IN 2004/2005

The expected improvement in the world economy should have a positive impact on the Samoan economy, particularly the exports of goods and services. At the same time, the forecast low and steady rates of inflation in NZ, Australia and the US, combined with increased local competition as the domestic market continues to open up are expected to minimize the impact of imported inflation on domestic prices.

5.1 Government Budget

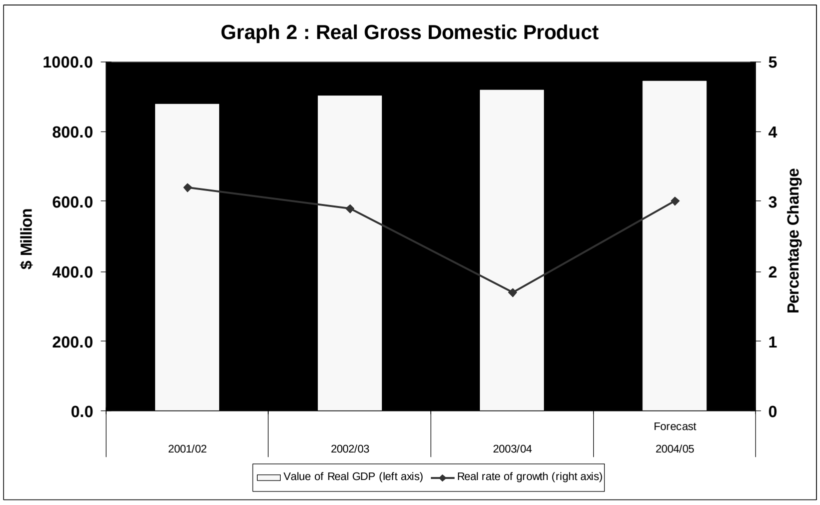
Again the focus of the 2004/05 Budget is on improving real economic growth, with expenditure on construction projects taking center stage. This year will see the beginning of construction of buildings and sporting facilities for the 2007 South Pacific Games. In addition, the Budget provides for the construction of some new National University of Samoa and Samoa Polytechnic buildings, the continuation of the Government's Infrastructure Assets Management Project and the ongoing program for the construction of school and hospital buildings.

The 2004/05 Budget therefore posts a substantial 56 percent rise in total expenditure to $517.9 million, accompanied by a 174 percent increase in grants from abroad to $241.4 million. Domestic revenue collections, on the other hand, are expected to improve by $17 million or 7 percent over last year's Budget.

With the sharp increase in grants from abroad, the Government Budget projects an overall deficit of $8.5 million, which is 40 percent lower than the deficit for last year.

5.2 Real Sector Outlook

The real sector is expected to grow more strongly in 2004/05 led by an expected boom in construction activity and improvements in all other sectors except agriculture, which is yet to show any significant sign of recovery. (See Graph 2.)



A number of substantial construction projects in the public and private sectors are expected to begin in 2004/05. They include the construction of sports facilities for the 2007 South Pacific Games such as the Aqua-center and gymnasium, new buildings for the NUS and Samoa Polytechnic, Development Bank of Samoa Headquarters, major hotel resorts and the ongoing Infrastructure Asset Management Project. The construction sector is therefore expected to grow by about 9 percent in real terms in 2004/05. The "Transport and communications" sector is expected to follow the trend in construction activity, with real growth for the sector expected at 3 percent in 2004/05. After declining in the past three years, fish catch is expected to rebound in 2004/05. The outlook for the fishing industry appears promising with the main fishing companies already experiencing an increase in catches in June and July 2004. In addition, the major fishing companies as well as the Agriculture, Forestry and Fisheries Department are forecasting an optimistic outlook for the industry. On that basis, real output for the sector is anticipated to improve 1 percent in 2004/05.

Production of "Food and beverages" is expected to expand further. The production of coconut oil is expected to improve with the supplies of copra to the coconut oil mill expected to increase following the recent 10 percent increase in copra producer prices. This sector is therefore expected to grow in real terms by 3.0 percent. For "Electricity and water", the projected growth in construction activity and the economy overall is expected to increase the demand for electricity and water so that a real growth rate of 3.4 percent is expected in 2004/05 for this sector.

The "Hotels and restaurants" sector is expected to grow further as tourism arrivals increase with the expected improvements in global economic conditions. This, together with Samoa's increasing popularity as a relatively safe tourist destination and stable country for hosting international and regional conferences, would see this sector growing in real terms by 4 percent in 2004/05.

Garment production is expected to resume at full capacity in the latter half of 2004/05 when the new garment factory is fully operational while the assembly of automotive wire harnessing is expected to rise further as growth in it's main market – Australia – continues on a solid footing. An overall real growth of 2 percent is therefore expected in 2004/05 in "Other manufacturing". Feeding on the growth in the above sectors, the "Commerce" and "Finance and business services" sectors are expected grow 3 percent each in 2004/05.

The adverse impact of cyclone Heta on agriculture is still expected to be felt in 2004/05 with the latest indicators not showing any significant signs of a recovery in production just yet. This, combined with the long-term downward trend in value added from agriculture, would see the output of the agriculture sector in 2004/05 stay at virtually the same level as in the 2003/04.

Overall, therefore, real GDP is expected to grow by around 3 percent in 2004/05.

5.3 Balance of Payments Outlook

Exports are expected to improve slightly in 2004/05. In addition to the expected growth in fish, garments and coconut oil exports as mentioned earlier, the outlook for nonu exports is promising. The main constraint currently facing the fledgling nonu industry is the inadequate supply to meet the growing overseas demand. Efforts are currently underway to promote this new and potentially lucrative industry. The nonu crop is being marketed as an organically cultivated fruit crop industry. It is virtually disease free and grows wild everywhere around the country, even on areas that are rocky and not suitable for growing traditional crops such as taro, banana and taamu. Nonu is exported as dried fruit as well as a processed fruit juice. (See Box 1.)

Imports, on the other hand, are expected to expand, consequent to the expected growth in the economy in 2004/05 and the sharply increased level of official grants. With the expected growth in domestic demand and rise in international oil prices, petroleum imports are likely to increase further in 2004/05. In addition to petroleum imports, imports of construction materials are anticipated to grow strongly. As a result, **total imports** are therefore projected to rise sharply to around $520 million in fiscal year 2004/2005, widening the merchandise trade deficit by about 25 percent.

With the expected increase in tourist arrivals as mentioned earlier, gross travel earnings are anticipated to rise 12 percent in 2004/05. On the other hand, expenditures by residents traveling abroad on short-term basis are also expected to grow, assisted by the expected increase in domestic incomes and reduced airfares. Net travel earnings are therefore expected to grow by some 15 percent in 2004/05. Inflows of interest earnings from foreign reserves are projected to grow with the expected upturn in international interest rates, particularly the US, Australian and NZ dollars. On the other hand, outflows of interest payments on Government and private sector loans as well as the remittance of profit dividend payments abroad are expected to grow. As a result, the net inflow of investment income is expected to edge up marginally in 2004/05.

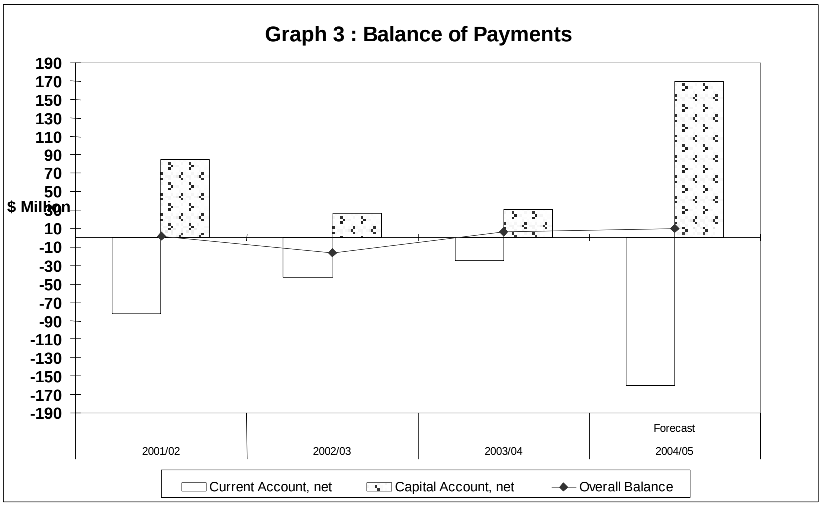
The firm Australian economy is expected to solidify the export of automotive wire harnesses by Yasaki while labour income and rent from foreign diplomatic missions in Samoa is expected to keep up with domestic price increases. The gross inflows from "Other services" account are therefore expected to increase by 4 percent to $62.9 million. The outflows in "Other services" is expected to grow in line with growth in incomes in Samoa. This item also includes an estimated $61.3 million counterpart item for the technical assistance and institutional strengthening portion of foreign grants from abroad. The total outflow for "Other services" is therefore expected to amount to $136.7 million. As a result, a large net outflow of $73.8 million is expected in "Other services", which is a substantial rise from a net outflow of only $10.6 million in 2003/04.

The net inflow of private remittances is envisaged to improve further in 2004/05 with the expected steady economic progress in the main source countries New Zealand, Australia and the USA. Private transfers net are therefore expected to rise by 1 percent to $208.7 million.

The Government Budget expects a sharp inflow of external grants in 2004/05 to fund a variety of construction projects and institutional strengthening projects. However, indications from the Ministry of Finance are that some of these projects may not commence in 2004/05 or will be spread over to the next financial year. For forecasting purposes, total external grants are therefore reduced to $158.3 million from the $241 million indicated in the 2004/05 Government Budget. As provided for in the Government Budget, foreign soft term loan disbursements for Government are expected at around $18.1 million while principal loan repayments are expected to amount to $12.9 million, giving a net loan disbursement figure of $5.2 million.

An amount of $14.0 million is projected as other private sector capital inflow reflecting the expected repayments of the loans to non-resident companies.

All factors considered, the balance of payments is expected to record an overall surplus of $13.0 million reflecting a capital account surplus of $170.1 million, which partially offsets a current account deficit of $157.1 million. (See Graph 3.) Despite the projected overall surplus in the balance of payments, the expected sharp (particularly grant financed) increase in imports will see the relative strength of international reserves drop to 4.4 months imports of goods in 2004/05 from 5.3 months in 2003/04.



5.4 Outlook for Prices

Headline inflation

Import component

The instability in the international oil markets in the intermediate future is the main worry in so far as imported inflation is concerned. The increased demand for oil by the recovering world economy and crises in major oil producing countries such as those in the Middle East, Russia[1], potential for civil unrest in Venezuela and speculation that OPEC may be unlikely to increase production soon, are the main drivers of the high crude oil prices in the world market. So far, the upward trend in international oil prices reflects the surging demand worldwide given the recovery in the world economy, petroleum-distribution bottlenecks especially in the USA and pessimistic speculation about the future of world oil supply. In 2004/05, therefore, the import component for headline CPI is anticipated to rise 6.0 percent due largely to an expected surge in the "Transport and Communication" sub-index and a sizable increase in the "Housing and Household Operation" sub-index. The projected growth in the "Housing and Household Operations" sub-index was based on the expected increase in demand due to the large number of construction activities around the country as mentioned earlier. The "Food" and "Clothing and Footwear" sub-indices are projected to increase slightly due to the expected increase in consumer demand.

Local component

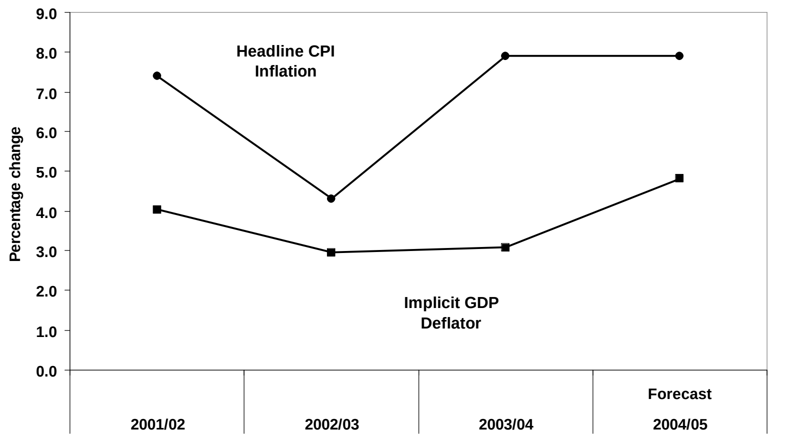
Local food prices are projected to head down to their "normal" or pre-cyclone Heta levels. As a result, the local "Food" component is forecast to decrease moderately in the twelve months to June 2005. The "Housing and Household Operations" sub-index is projected to increase reflecting pressure on prices on the back of the expected boom in construction activity in 2004/05. A small increase is also expected in the "Transport and Communication" subgroup. The upward movement in petroleum prices is anticipated to exert upward pressure on bus fares and

[1] Russia is the world's second largest oil exporter after Saudi Arabia.

taxi fares during the year. On the other hand, both the "Alcohol and Tobacco" and "Miscellaneous" sub-indices are forecast to remain unchanged in the next twelve months. Overall, therefore, the local component of the headline CPI is expected to rise 7.9 percent in 2004/05.

All items
Overall, headline inflation in 2004/05 will be driven by the expected sharp rises in the "Food", "Housing and Household Operations" and "Transport and Communications" subgroups. The other subgroups such as the "Clothing and Footwear", "Alcohol and Tobacco" and "Miscellaneous" sub indices are not expected to change much. All in all, the headline annual rate of inflation is projected to accelerate reaching around 17.0 percent in December 2004 before backing down to 7.9 percent in June 2005. (See Graph 4.) This headline forecast, of course, does not take into account the possibility of another major cyclone or similar catastrophe during the year.

Graph 4 : Annual Average Change in Prices



Underlying inflation

Since the headline measure of inflation includes items that are thought to be volatile enough to obscure the long-term trend in prices, an underlying measure of inflation is generally used by central banks as the focus for monetary policy formulation. An underlying measure of inflation is one that aims to eliminate the temporary fluctuations in prices that are not attributed to variations in demand.

There are several measures of underlying inflation. The most common approach is the ***exclusion*** from the CPI basket of items that are too volatile, seasonal, subject to administrative price controls and sensitive to interest rate changes. Although this method is simple to implement, it can potentially eliminate a very large portion of the CPI. The newer and more statistically grounded approaches have found favor in many countries, particularly those that have adopted inflation targeting. The Central Bank of Samoa is currently reviewing these new approaches with a view to adopting one that is suitable for monetary policy formulation in Samoa. In the interim, the Bank is monitoring closely the newly compiled exclusion-based measure of underlying inflation published by the Statistical Services Division of the Ministry of Finance.

Imported items dominate the underlying CPI, accounting for 75 percent of the underlying index. In 2004/05, the overall underlying import component is expected to increase 2.6 percent on an end-year on end-year basis. The import component, on the other hand, is expected to go up by 0.8 percent.

The "Food" and "Clothing and Footwear" sub-indices are expected to rise 2.2 percent and 1.9 percent on an end-year on end-year basis respectively, on the back of increased consumer demand. The "Housing and Household Operations" sub-group is expected to increase 2.5 percent reflecting the potentially strong demand for building materials during the year. Likewise, the "Transport and Communication" sub-index is expected to rise about 1.0 percent and the "Miscellaneous" sub-group is expected to edge up slightly.

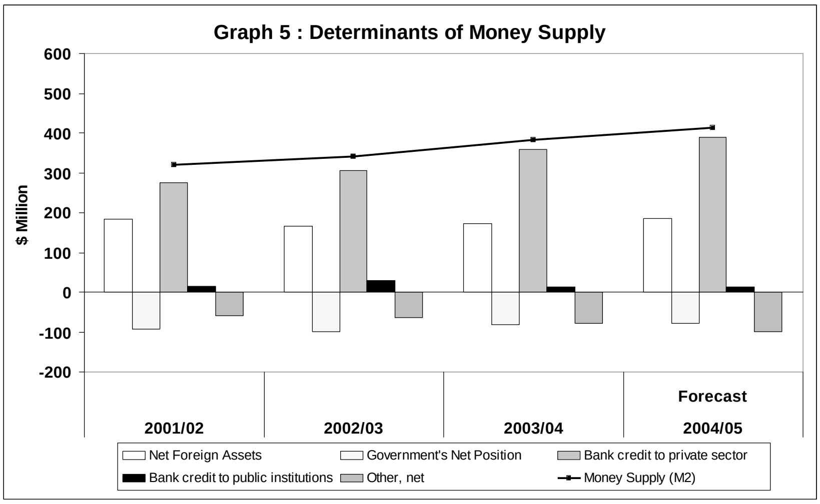
Overall, therefore, the underlying inflation rate is expected at first to continue its current upward trend until December 2004 before decelerating to 2.2 percent in June 2005 (on an end-year on end-year basis).

6. MONETARY POLICY STANCE FOR 2004/2005

The above forecasts indicate a favourable outlook for the domestic economy in 2004/05. Boosted by the expansionary stance of fiscal policy, real economic growth is expected to improve by 3 percent, led by strong public and private sector construction activities and further growth in tourism earnings, private remittances and grants from abroad. On the external sector, the balance of payments is anticipated to record an overall surplus despite a sharp increase in imports. The level of international reserves is expected to remain at above the minimum target level of 4 months imports coverage. On the other hand, headline inflation is expected to remain high, rising initially in the first half of the financial year 2004/05 because of the pass through impact of cyclone Heta and international oil prices. It is expected to decline in the second half reaching 8 percent at the end of June 2005. However, leaving aside the unavoidable impact of cyclone Heta and oil prices, the underlying rate of inflation is expected to remain low at less than 3 percent.

The macro-economic picture for 2004/05 therefore looks robust and stable. To improve on the low growth performance in 2003/04, the Central Bank Board resolved at its meeting in August 2004 for monetary policy to continue to support fiscal policy in generating stronger economic growth in 2004/05. In this regard, bank credit to the private sector will be allowed to grow at the same pace as last year of 13 percent on an annual average basis. Together with the Budget deficit and the expected net inflow of funds from abroad, money supply (M2) is targeted to grow by 9 percent in 2004/05. (See Graph 5.) Open market operations will therefore focus on maintaining liquidity at their current levels so that interest rates are maintained at their prevailing levels or reduced further as the year progresses.

This monetary policy stance will be reviewed after six months to ensure that it is consistent with the prevailing economic conditions.



Box 1

NONU – A promising new addition to Samoa's exports

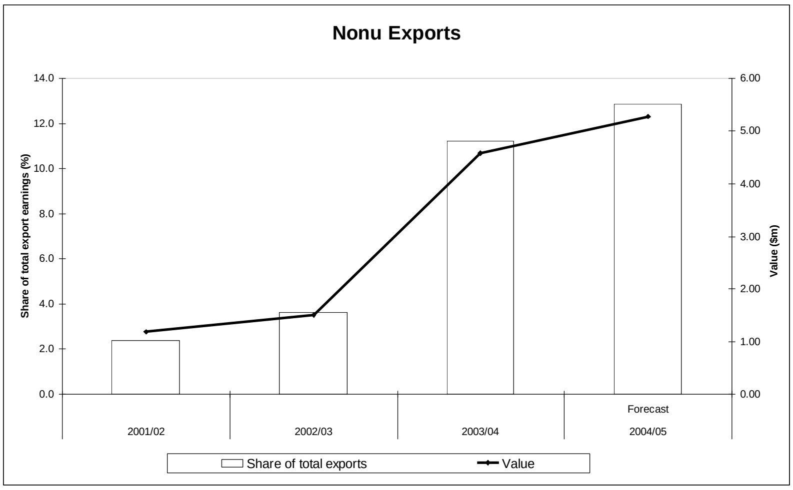
People of the Pacific, Samoans in particular, have traditionally used nonu leaves for medicinal proposes – for the cure of common ailments such as skin allergies, boils, fever and more. However, the usefulness of its fruit as a dietary supplement has only recently been discovered. With the ever-growing market for health and dietary supplements around the world, the demand for nonu products has grown strongly in the past few years. In the process, Samoa has suddenly found herself sitting on a potentially lucrative export commodity. This could not have come at a better time with exports of the main commodities such as fish and coconut oil falling in the past three years.

Nonu is known scientifically as morinda cigrifolia and grows wild everywhere in Samoa. The nonu tree does not require chemicals for their upkeep since they are largely decease resistant and pest free. And, from a marketing perspective, it is highly attractive as an organically grown and environmentally friendly commodity.

Since it first appeared in 2000, nonu has been considered as one of the most promising export commodity for Samoa, with earnings climbing to an all time high in the first quarter of 2004, tying with beer as the second largest export earners after fish.

Nonu is exported as processed juice and dried fruit. Small amounts are also exported in chips and powder forms. The higher value added nonu juice is the largest of the four forms of exports due to overseas demand. The USA is the largest market followed by Japan. Some shipments also go to American Samoa, New Zealand and Australia.

Nonu exports quadrupled to $4.6 million in 2003/2004, boosting its share of total export earnings to 11 percent as a result. In 2004/2005, revenues from nonu are conservatively forecast to grow 15 percent.



According to the main exporter of nonu products, Nonu Samoa Enterprises Ltd, overseas demand for nonu products have so far exceeded Samoa's capacity to produce since much of the raw materials have been supplied mainly by the existing stock of trees growing wild around the country. The cultivation of nonu plantations only began in the last two years. So far, Samoa has been able to supply only about 35 percent of overseas orders received.

On 7 September 2004, Nonu Samoa Enterprises Ltd, in conjunction with the Siosiomaga Society of Samoa started what would become an annual 'Nonu Day' where all relevant organizations and interested members of the public exchanged views on local nonu development and overseas markets. Activities included free bus trips for the public to major nonu plantations around the country, free distribution of nonu seedlings and pamphlets containing information on the cultivation of nonu trees. According to the organizers, that was the first time a special day was devoted to promoting a plant for export. The funding of nonu day by

Nonu Samoa Enterprises Ltd, a privately owned company, showed how serious the private sector was about developing the nonu industry. Overseas buyers have suggested that the Samoan nonu was the best species of nonu in the Pacific because of its very high mineral content.

Nonu, which farmers previously considered a nuisance, has now become a valuable cash commodity for areas that are too rocky for the cultivation of traditional crops such as taro, taamu, yam and banana. It has provided a good opportunity for many villages on the big island of Savaii that are covered by volcanic lava fields.

In the immediate future, the prospect for nonu looks bright. For the long term, however, efforts should focus even more intensively on research and marketing of nonu to ensure that it does not go the way that other commodities such as amelonado, passion fruit, ginger and kava went in the past.